

Message Text

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64

ACTION EA-10

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 /088 W

----- 004267

R 180750Z JUL 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 1493

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

USDEL MTN GENEVA

CINCPAC

CONFIDENTIAL SEOUL 5377

CORRECTED COPY - TEXT

HONG KONG FOR REGFINATT

E.O. 11652: GDS

TAGS: EFIN, ETRD, KS

SUBJECT: BALANCE OF PAYMENTS CONTINUES TO IMPROVE

REF: (A) HONG KONG 8007 (NOTAL); (B) SEOUL 4235

1. CONTRARY TO IMPRESSION GIVEN IN REF (A), KOREAN BOP SITUATION HAS DEFINITELY IMPROVED IN RECENT MONTHS. PRELIMINARY DATA FOR JUNE ARE IN LINE WITH FAVORABLE APRIL-MAY TRENDS REPORTED REF (B). IMPORTS WERE PARTICULARLY LOW AGAIN IN JUNE, HELPING TO GENERATE ANOTHER SMALL BUT RARE TRADE SURPLUS ON A KFX BASIS, I.E., EXCLUDING IMPORTS FINANCED WITH LONG-TERM CAPITAL. EXPORT ORDERS IN JUNE WERE DOWN 9 PERCENT FROM RECORD MAY LEVEL BUT WERE MORE THAN 50 PERCENT HIGHER THAN FIRST QUARTER LEVEL SEASONALLY ADJUSTED.

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EXPORTS AND IMPORTS ARE EXPECTED TO INCREASE ABOUT EQUALLY IN THIRD QUARTER, PERMITTING CONTINUED APPROXIMATE TRADE AND CURRENT ACCOUNT BALANCE ON KFX BASIS, AFTER DEFICITS TOTALLING AROUND \$900 MILLION FOR FIRST FOUR

MONTHS OF YEAR.

2. KOREA'S FOREIGN EXCHANGE POSITION ALSO CONTINUED TO IMPROVE IN JUNE, WITH GROSS RESERVES RISING \$109 MILLION TO A RECORD \$1,083 MILLION, BEFORE EARLY JULY DRAWING OF \$72 MILLION FROM IMF OIL FACILITY. NET FOREIGN ASSETS IMPROVED ANOTHER \$67 MILLION IN JUNE TO MINUS \$567 MILLION, OR MINUS \$23 MILLION IF LONG-TERM LIABILITIES ARE EXCLUDED. IMPROVEMENTS ARE DUE TO INCREASED LONG-TERM CAPITAL INFOLOWS, GREATER USE OF TRADE CREDITS AND SUCCESS IN ATTRACTING FX DEPOSITS AND INCREASING FOREIGN BRANCH BANK LENDING. IMPROVED FX AND BOP SITUATION HAS LED TO SOME INCREASE IN FOREIGN BANKER CONFIDENCE, THOUGH ROLLOVER OF LARGE SHORT-TERM BANK CREDITS WILL REMAIN POTENTIAL PROBLEM FOR AT LEAST REMAINDER OF YEAR.

3. RE REFERENCE IN PARA 9 REF (A) TO "ALREADY HIGH" EXTERNAL DEBT AT BEGINNING OF 1974, WOULD LIKE TO POINT OUT THAT KOREA'S DEBT SERVICE RATIO WAS 12.4 PERCENT IN 1974 AND WILL BE 14-15 PERCENT THIS YEAR. RECENT PARIS CG MEETING CONCLUDED THAT SERVICING OF FUTURE HEAVY BORROWING SHOULD NOT POSE A SERIOUS PROBLEM PROVIDED THAT OFFICIAL AND SEMI-OFFICIAL FINANCING REMAIN AVAILABLE.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BALANCE OF PAYMENTS, FINANCIAL DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 18 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SEOUL05377
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: D750250-1070
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197507107/baaaaauod.tel
Line Count: 81
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 20 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 MAY 2003 by ShawDG>; APPROVED <06 OCT 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EFIN, ETRD, KS
To: STATE INFO TOKYO
TAIPEI
HONG KONG
MTN GENEVA
CINCPAC
Type: TE

Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006